APPLICATION OF RESOURCE BASED VIEW OF THE FIRM

In the previous chapters case studies of selected organisations were presented with a view to identifying the responses of different ownership forms of organisations. An important question that needs to be examined in the context of the ownership form of the organisation is whether an enterprise with a unique form of ownership acquires superior capabilities as compared to an enterprise with a different ownership structure. The chapter is divided into two parts. The first part presents a theoretical perspective on the capability perspective in the context of the Resource Based View (RBV) of the firm. It is followed by the second part where an effort has been made to apply the RBV perspective in the enterprises chosen for the study to seek answer to the question alluded to earlier.

5.1 Resource Based View of the Firm

Research in strategy literature has gone beyond examining the physical dimension of an enterprise and is increasingly focusing on the intangible aspects of the firm so as to examine the resource-capability of the firm. (Wernerfelt 1984).[1] The resource based view of the firm finds its origin in the work of Penrose (1959) and Barney (1991). The intangible aspects can be in terms of capabilities, competencies, and resources (Penrose 1959[2], Prahalad and Hamel 1994[3]) that enhance the strategic responses of the firm. Capability related issues have been the focus of strategy research for more than four decades and has been instrumental in giving rise to the intellectual capital based view of the firm. Though there is growing interest, yet the concepts of capability, resources and competencies have been used in a nebulous manner. Ray and Ramakrishnan (2006) lament "the terms resources, competencies and capabilities are widely used in strategic management literature today ……the use of the terms tends to be loose and nebulous."[4] The issue of capabilities has been examined from the resource based view of the firm and extended to the knowledge based organisation in the context of the growth of the knowledge based economy, an influential school of thought.

The use of the term resources can be traced to the work of Penrose (1959), who conceptualised the firm "……. as a collection of productive resources, the disposal of which between different uses and over time is determined by administrative decisions."[5] Penrose's conceptualisation is in typical classical economics mode to view resources as land, labour, capital and information but not in terms of strengths and weaknesses. Wernerfelt (1984) defined resources as "…….anything which could be thought of as a strength or weakness of a given firm." The resources, capability, competence are also referred to as the inside-out perspective.[6] The resource-based view of the firm believes that most of the recommendations of the perspectives on the competitive position of the enterprise are short-term in nature and the real strength and advantages emerge from the resources within the firm. The interaction between tangible resources, intangible resources such as methods of doing business and human resources of an organisation develop a set of organisational processes. These, in turn, help creation of product and services. The product and services influence development of unique beliefs and capabilities in an organisation. These cannot be copied or replicated leading to the view that this uniqueness becomes a source of competitive advantage of the enterprise. Penrose in her study of diversification came up with the idea of uniqueness as a rationale for corporate development. In this process of developing unique products firms develop unique capabilities or resources. The impact of the work was that it shifted the focus from the industry to the firm.

Wernerfelt (1984) extended Penrose's ideas and in which he proposed that[7] (i) examining firm from a resource perspective helps us in understanding it differently in comparison to the traditional product perspective; (ii) resources that help generation of high profits can be identified. These can also act as entry barriers to competitors; (iii) a large enterprise has to make an optimal choice between deploying existing resources and developing others anew. This is strategy for the enterprise; (iv) acquisition can be viewed as buying a bundle of resources for competitive advantage and higher returns. Wernerfelt in his analysis perceives resources as a constellation of a larger concept and includes intangible aspects such as brand names, understanding of technology, use of professional workforce, trade relationships, well-organised work processes as resources. This perspective is much broader than the conventional view of the firm. Barney (1991),[8] considered even organisational processes, information and knowledge as constituents of enterprise resources. Thus resources of a firm can be both tangible and intangible.

Following the delineation of the concept of the capabilities of the firm by Wernerfelt (1984) led to the formulation of the core competence proposition by Hamel and Prahalad (1990). They identified core competence as a collection of knowledge, skills possessed by an enterprise while 'core capability' was the ability to utilise a competence for competitive advantage. The three criteria they suggested to identify core competence were (i) competence providing access to a wide array of markets; (ii) competence contributing to development of products that could benefit customers and (iii) competence difficult to imitate by competitors.

The advantages of the concept of core competency are (i) it helps the enterprise in identifying the competencies prior to scanning the environment for potential opportunities; (ii) brings about coordination and integration of resources that are across the organisation.

The importance of resource integration in generating superior performances is highlighted by Barney (1991).[9] He indicated that there are four identifiers to understand the potential of the resources of a firm. These identifiers are valuableness (a valuable resource that can help in differentiation and cost reduction), rareness (the competitors should not have this resource), inimitability (resources of a firm should not be copied easily) and substitutability (a firm's resource not to be substituted by that of another). These identifiers help in understanding the firm's resources and capabilities for competitive advantage.

Reed, Lubatkin and Srinivasan (2006) highlighted the disadvantages of resource integration.[10] According to them, Barney (1991) perceived that a firm's resources, more specifically, the intangible ones, are more likely to contribute to firms achieving excellence when they are brought together and stated Penrose's (1959) notion that there was "interaction between two kinds of resources of the firm-it affects service available in each."[11] They argued based on Teece, Pisano and Shuen (1997)[12] that competitors would have constraints in replicating an advantage that is based on a blend of valuable resources exclusive to the firm as this amalgamation stems from organisational work processes that are unclear, unique to the firm and socially complex and hence would not afford any advantage to the competitor.

They further opined that interactions are unique to a firm, are non-observable and hence measuring them is difficult. They identified five limitations of resource based view of the firm (i) does not prescribe solution to managers as to which resource is to be exploited for gaining competitive advantage; (ii) vagueness in defining competitive advantage; (iii) tautological because resources are defined in terms of outcomes and not observable inputs; (iv) not clear about the domain of application; (v) resource based view of the firm was too general because of the possibility of configuration of resources in multiple ways. To obviate these limitations Reed, Lubatkin and Srinivasan (2006) proposed the 'intellectual capital based theory' view of the firm focusing on three types of capital viz., human capital, social relationship capital and organisational capital (IT systems and processes). Following Oster (1999),[13] Peteraf and Barney (2003),[14] Reed, Lubatkin and Srinivasan (2006) defined competitive advantage in terms of characteristics that allow a firm to outperform its rivals in the same industry. To avoid tautological problem they link knowledge resources to competitive advantage.

Post (1997) made a distinction between competence building and competence leveraging.[15] Competence leveraging is using competencies already present in the firm to capitalise on new market opportunities. In the intervening period there was a lot of focus on Porter's positioning school and limited interest in the resource view of the firm. With increasing focus on internal culture and capability building by enterprises, once again there is renewed interest in the Resource Based View school of thought.

Petts (1997) used the concept of core competence engine to operationalise core competencies.[16] The core competence engine has the facets of skill identification, organisational learning involving teamwork, development of knowledge, development of competencies at the appropriate time, organisational restructuring and investment in continuous innovation.

Drawing upon Ray and Ramakrishan (2006), the chronological sequence of various definitions of competence has been presented in Table 5.1.1.[17]

Table 5.1.1: Chronological sequence and focus of definition of competence

Sr.No.	Year and Scholars	Focus of the definition
1	1957 : P. Selznick	Attempted to see competence in terms of distinctiveness. Organisation adapts to meet its goals
2	1971: Kenneth Andrews	Distinctiveness of competence. Focus is on ability of an organisation to excel in action
3	1982: B.C. Reimann	Competence in terms of the growth and existence of the enterprise
4	1990: C.K.Prahalad and Gary Hamel	Core competence in terms of learning across the organisation. Relates to knowledge within the organisation
5	1992: R. Hall	Core competence that differentiates an enterprise from the competitor. Underlines importance of an organisation's knowledge
6	1994:William.C.Bogner and Howard Thomas	Competence seen in terms of acquiring unique skills and hence ahead of competitors
7	1994: George. S. Day	Ability of the enterprise to coordinate a variety of businesses
8	1996: David Lei, Michael Hitt and R. Bettis	Discusses knowledge aspects of competence. Competence is not static. Enterprise acquires more knowledge by trials and experimentation
9	1996: Sanchez, Heene and Thomas	Ability to deploy assets to organisational objectives
10	1996: Nicolai.J.Foss	Knowledge to undertake organisational activities better than competitors
11	1997: David.J.Teece, Gary Pisano and Amy Shuen	Competencies that form the basis of the business of enterprise
12	1998: Dosi, Giovanni, David.J.Teece	Ability of an enterprise to bring together and use, distinct knowledge and organisational processes, assets so as to achieve competitive advantage
13	1999: William Bogner, Howard Thomas and John McGee	Competence, is relevant only if it helps in gaining competitive advantage either by meeting customer requirements better than competitors or at a lower cost or both
14	1999:Howard Thomas and Timothy Pollock	Competence is ability to deploy knowledge in a variety of contexts so as to meet customer requirements and difficult to imitate by competitors
15	2003: M.M. Crosson and I.Bedrow	Organisational learning and strategic renewal linkage

Source: Adapted from Ray and Ramakrishnan (2006), pp. 5-7.

Ray and Ramakrishnan also looked at definitions of capabilities. Based on their review, the chronological sequence has been presented in Table 5.1.2.

Table 5.1.2: Chronological sequence of focus of definition of capabilities

Sr. No.	Year and Scholar	Focus of the definition
1	1969: E. Learned , C. Christensen, Kenneth Andrews and W. Guth	Ability to steal a march over competitors
2	1980: R.T.Lenz	Strategic capability to be seen in terms of long term growth
3	1984: David. J.Teece	Marshalling resources in an organisation to respond to market changes and sustain the momentum
4	1984: B.Wernerfelt	Focus is on organisational resources
5	1989: Michael Lawless, Dorald Bergh and Willam D. Wilsted	Organisation's unique resource endowment and stance is capability
6	1990: David Ulrich and Dale Lake	Ability to redesign and align structures and processes to develop competencies in an organisation to respond to consumer shifts and other organisational objectives
7	1991:R.M.Grant	Constellation of resources is capacity to perform
8	1992: Paul J.H.Schoemaker	Core capability is competency that evolves over time through organisational learning, cannot be imitated, cannot develop by increasing investments and helps in developing competitive advantage
9	1992: George Stalk, Philip Evans and Lawrence E Shulman	Customer is the be-all and end-all of capability. Customer's importance in using capabilities
10	1992: D.Leonard Barton	Constellation of knowledge that is available in an organisation for gaining competitive advantage in terms of employee knowledge, technical aspects, managerial aspects, values and norms
11	1993: Raphael Amit and Paul. J.H.Schoemaker	Ability to use resources using managerial processes to meet organisational objectives
12	1993: M. Tracy and F. Wiersama	Capability is excellence in operations, customer intimacy and product management
13	1994: Hendorson R.M. and I.Cockburn	Using existing resources and developing resources anew
14	1994: George.S.Day	Organisational knowledge for better inter-functional coordination
15	1997: David.J.Teece, Gary Piasno, Amy Shuen	Ability to bring together, develop, redesign competencies to respond to changing environments
16	1997: Post	Distinction between competence building and competence leveraging
17	1997: Petts	Core competence engine to operationalise it
18	1999: Dosi, Giovanni, David. J.Teece	Ability to manage organisational tasks and activities
19	2000: Sidney Winter	Organisational routines and inputs that provides management alternatives for generating significant outputs
20	2007: M.R.Dixit, A.Karna and S.Sharma	Classification of capabilities

Source: Adapted from Ray and Ramakrishnan (2006), pp.9-12.

Ray and Ramakrishnan (2006) in their review of the capability school of thought in strategy felt that many scholars have used the term competencies and capabilities interchangeably. To clear the confusion Ray and Ramakrishnan defined competence as a "combination of firm-specific resources, each of the resources being under the state of sufficiency, towards achieving specific organisational objectives" and capability is "a complex combination of appropriate set of competencies towards achieving specific organisational objectives."[18] The role of the management would be in developing competencies and capabilities for the future.

In the light of requirement of operationalisation of the capabilities of the firm, Dixit, Karna and Sharma (2007) classified capabilities on eight dimensions.[19] These capabilities have been highlighted as below:

Definition of capabilities: capabilities can be uni-dimensional or multi-dimensional.

Portfolio: capabilities cannot exist on their own but sustained by skills.

Utilisation: the business objective behind the capabilities and capabilities are means to achieving them.

Level: the level at which capabilities exist in an organisation at corporate level, SBU level etc.

Characterisation: capabilities can be valuable, non-substitutable and cannot be copied

Demonstration: how the capabilities have been deployed and operationalised is the focus.

Lifecycle and development of capabilities: how capabilities are built in organisation.

The conceptual framework of Dixit, Karna and Sharma (2007) is given in Figure 5.1.

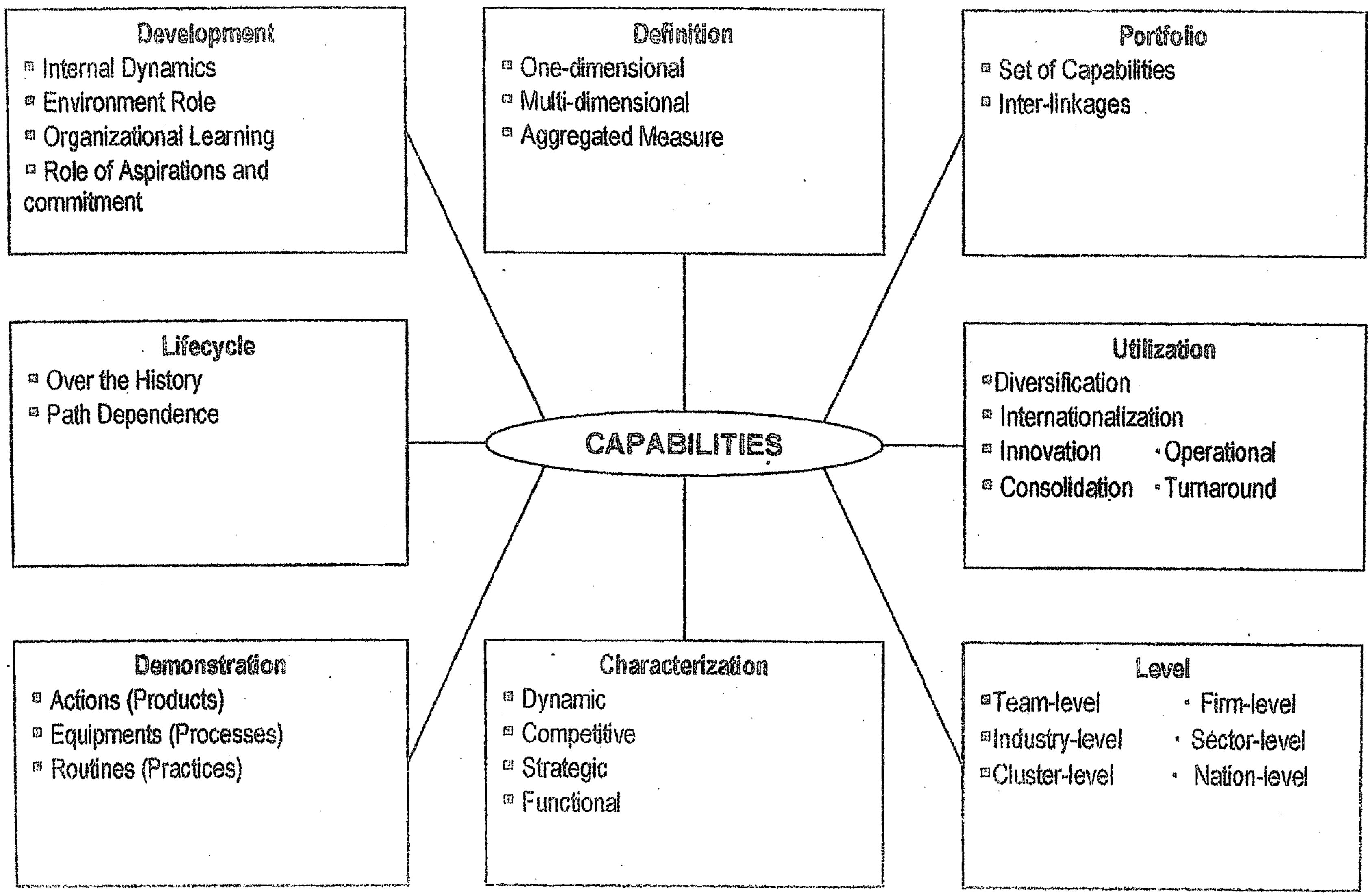

Figure 5.1: Conceptual framework of dimensions of capabilities
(Source: Dixit, Karna and Sharma 2007, p.11).

The resource based view of the firm, along with capability dimensions have been used to study specific enterprises despite the limitations of the resource based view. Pettus (2003) applied this perspective in the context of the US trucking industry and concluded that after deregulation, trucking enterprises took internal decisions from being truck companies to total transportation carriers by acquiring other firms and in the process acquiring new capabilities and resources and achieving a synergy across these capabilities for growth in transportation business.[20] Harreld, O'Reilly III and Tushman (2007) underlined the importance of the link between strategy and action. They analysed the case of IBM that transformed from a purely technology company to an IT solutions company. They concluded that capabilities are dynamic in nature and the focus of leadership was ensuring this in enterprises. Strategy is not static and they emphasised capabilities have to be acquired and reconfigured in the light of changing market environment as IBM did.[21]

5.2 Application of the RBV Perspective to the Enterprises Studied and Implications

Hereinafter an attempt is made to apply the resource based view of the firm using capability dimensions in the context of organisations discussed in Chapter 3 and Chapter 4. The analysis has been carried out with a view to gaining understanding of the processes which are affected by varied ownership forms in developing capabilities to gain competitive advantage. Using the capabilities framework of Dixit, Karna and Sharma (2007) an effort has been made to categorise the capabilities of the cases studied on the basis of the eight dimensions of capabilities suggested by them. These have been highlighted in the Table 5.2.1.

Table 5.2.1: A comparison of capabilities across organisations studied

Organisation / Capability Dimension	GCMMF	KMF	BEL	Infosys
Definition	Multiple: New product development, distribution, branding, IT usage, quality management and strong procurement methods etc	Single: strong distribution within Karnataka	Single: Development of high end technologies for Indian defence requirements	Multiple: Global delivery, HR capabilities, corporate branding etc
Portfolio	Multiple skills in dairy business	Multiple skills in dairy business in the context of distribution of dairy products in the state	Multiple skills to meet the Indian defence requirements	Multiple skills in IT
Utilisation	Being a market leader in dairy business	Market dominance within Karnataka	Meeting the requirement of Indian armed forces	Being a global company and market leader in India
Level of capabilities	Federation and union level have strategic capabilities. Ability to hire high level consulting firms for advice	Strategic capability at the Federation level only. Strategic advice and support from NDDB	Strategic capabilities mainly at the corporate level	Strategic capabilities at corporate level as well as large SBUs
Characterisation	Strong distribution network across India. Cannot be easily imitated	Strong penetration in Bangalore market alone. Cannot be imitated easily	Highest quality development of defence equipment. Not easy for Indian private sector to develop	Global Delivery Model. Minimisation of risk by not overexposing to any client, vertical, geography. Powerful brand name, cannot be matched easily
Demonstration	Ability to leverage distribution of more products	Restricted to distribution within Karnataka	Continuous improvement of quality	Getting into upper end IT consulting
Lifecycle and development of capabilities	Continuous efforts in upgrading skills from farmers to retailers	Limited training for upgradation of capabilities. Prodding by NDDB. Need to strengthen retailing capabilities	Mostly technical training. Not much of management training	Continuous upgradation to sustain and enhance capabilities and entry into new domains

Based on the comparison of the capabilities using the framework of Dixit, Karna and Sharma (2007) one is driven to the inference that GCMMF and Infosys have acquired more capabilities. In the case of GCMMF these are in terms of distribution, strong procurement, brand management, usage of IT for business etc. Infosys has more capabilities such as their Global Delivery Model, HR capabilities, and brand management capabilities. These successful organisations have more strategic capabilities available at multiple levels, greater propensity to deploy them and continuous investment in developing them on account of their autonomy, enjoyed by them due to the form of ownership, though their forms of organisation are different. GCMMF is a cooperative and Infosys is a company form of organisation. But what is common is the dispersed ownership (resting with the producers in GCMMF and shareholders in Infosys) ensuring managerial autonomy which has afforded the capability of quickly responding to changes in the market situation to gain competitive advantage. This autonomy is not available to KMF or BEL as there was a lot of control on the management of these organisations because of the ownership being controlled by the state and hence neither KMF nor BEL could respond to changing market situations to gain competitive advantage. This inference is supported by Dixit, Karna and Sharma (2007), based on their case study of Samsung, wherein they stated that acquiring breakthrough capabilities was influenced by two variables, namely organisational persistence and environmental support.[22] In the case of Infosys its Global Delivery Model was a breakthrough to attain competitive advantage in software business. GCMMF similarly attained a breakthrough in successfully marketing ice-creams to common people in a product category that was deemed a luxury. Neither KMF nor BEL was able to demonstrate breakthroughs in their respective businesses, despite favourable environmental conditions. The Resource Based View analysis derives to the conclusion that organisational persistence in this direction was the missing variable, be it market expansion beyond comfort zones, establishing strategic alliances or leveraging brand names for gaining competitive advantage. Organisational persistence in formulating responses was constrained by the limited autonomy to BEL and KMF owing to their ownership form i.e., both being controlled by the government, BEL a PSU and KMF, a government controlled cooperative. Thus, ownership structure that provides autonomy to the enterprise in strategy formulation helps in the development of capability and competence of a firm for competitive advantage.

In the foregoing section, the theoretical framework of the capabilities dimension of the firm was discussed. Based on the examination of the four case studies using the capabilities framework suggested by Dixit, Karna and Sharma (2007), it was inferred that the form of ownership of an organisation influences the formation of capabilities in it. The practical implications of the comparison of capabilities (using the framework as above) and given in Table 5.2.1 for the organisations have been discussed in the following section.

The 'definition' of capability indicates the presence of an ability that enables organisations to achieve their objectives in a competitive business environment. In the case of KMF, its strong distribution capability within Karnataka gives it a competitive advantage over its rivals. The implication for KMF is that it ought to focus on deploying its resources to further strengthen this capability. GCMMF has multiple capabilities such as new product development, distribution, usage of IT for business, quality management, distribution, brand development and development of a strong procurement base. In GCMMF's case, multiple capabilities are present and building them further can convert them into entry barriers for potential rivals. With regard to BEL, its capability lies in development of products using high-end technologies for the Indian armed forces. An implication for BEL, on the basis of this study, is to strengthen this capability further and to ensure its leadership in the defence electronics sector in India, as the government is planning to encourage the entry of the Indian private companies in this sector through the Raksha Utpadak Ratna scheme. In the context of Infosys, while it possesses multiple capabilities in branding and global delivery of its IT services, it ought to develop capabilities in IT product development, to have an edge over its competitors.

Even a single capability requires multiple skills to sustain it. Thus, to acquire additional capabilities, it is important to develop new skills that are relevant for the same. With regard to KMF, while it has multiple skills in the area of distribution, it has to develop skills, to begin with in other areas (say usage of

IT and product management) before they can become sources of competitive advantage. To acquire new skills, KMF has to take decisions on aligning existing human resources and investing in developing the same. In the case of GCMMF, in the new business areas it is planning to enter, some of which are not connected with the dairy business, it has to strengthen its capabilities. BEL's competence is in dealing with defence requirements. It has limited skills in handling the civilian market. It has to therefore acquire skills in this area. (A beginning has been made to train its executives in marketing, with the help of a leading management development institution). While Infosys has multiple skills in its existing area of IT business, it has to develop skills in its forays into new areas of business and new geographical areas. An implication for Infosys is to acquire firms that possess the capabilities which the company does not have at present.

'Utilisation' of capabilities implies the purpose for which they have been deployed. It is inferred that KMF's focus has been on using its capabilities to maintain market dominance within Karnataka. An implication is that KMF has to use its organisational capabilities to enhance its presence in other states at least in South India. While GCMMF has utilised its competencies to emerge as a market leader in the dairy business, it has to utilise the same in other food businesses where it has made an entry. BEL has to utilise its capabilities in developing technologies for the civilian markets and marketing the same. Infosys has utilised its capabilities to be a global leader in IT services and it can in future deploy the same for strengthening its presence in the high end IT consulting business, where it faces a tougher competition.

The 'level' dimension of capabilities framework indicates as to where the capabilities are available in an organisation. In the case of KMF, strategic capabilities exist at the state level federation and not at the district level unions. An implication of this study for KMF is that it ought to consciously develop strategic thinking and planning capabilities of the top managers at the district level dairy unions. In contrast, in GCMMF, strategic capabilities are seen both at the federation level and at the district union levels. The implication for GCMMF is that it should align the strategies of the federation and the union levels, as some of the larger dairy unions under the GCMMF umbrella have strong marketing capabilities of their own. In the case of BEL, such strategic capabilities are at the corporate level. In view of its planned foray into the civilian market, BEL has to consciously develop strategic capabilities in its larger SBUs, such as the Bangalore unit. With regard to Infosys, a major implication, similar to that for GCMMF, is the importance of aligning the strategic capabilities at the corporate level and at its larger SBUs, such as the Banking Business Unit.

Capabilities, when described with appropriate qualifiers, indicate 'characterisation'. In the case of all the organisations studied, capabilities identified cannot be imitated easily. The implication is that capabilities so identified provide leverage to these organisations in competing in their respective businesses. Another implication is that KMF and BEL ought to develop more inimitable capabilities. KMF needs to develop product management capabilities to emerge as a major player in south India. BEL can develop its capabilities to meet the civilian market requirements. In the case of GCMMF, capabilities other than distribution (such as brand management, usage of IT) can be copied by potential competitors; and with respect to Infosys, its capabilities other than its Global Delivery Model (such as brand management, HR management) can be imitated by rivals. The top management of these organisations needs to focus and further strengthen these additional aspects so that they become inimitable sources of competitive advantage to the organisations.

'Demonstration' of capabilities provides an operational context to the capabilities present in an organisation. An implication is that it helps decision-makers to measure the deployment of an organisation's capabilities in the form of actions, and the steps taken to achieve business objectives. An implication for KMF is to examine the steps taken to improve distribution and market penetration in Karnataka and other markets in south India. For GCMMF, it would be the ability to deliver more products through its existing distribution network and enhancing market penetration by improving the availability of its products in its existing dairy business and its forays into other new areas of business. The implication for BEL would be to see the impact of the steps taken by it to further improve its quality management practices and the products that it has developed to meet the civilian market requirements (BEL has taken an initiative to benchmark itself against other international firms in these areas). With regard to Infosys, it needs to examine the impact of actions taken by it to attract high-end IT consulting assignments.

'Life cycle and development' of capabilities, as research areas in the field of strategic management, are in their early stages. An attempt has been made to understand the implications of this dimension of the capability framework for each of these organisations. KMF's capabilities are still in their nascent stage of development and even these have been developed with considerable support and prodding from NDDB, the apex body for the dairy sector in India. An implication for KMF is the importance of having strong and continued collaboration with NDDB in future. In the case of GCMMF, capability development has been based on decisions taken internally by its top management. At the same time, given its entry into emerging areas like retailing, it needs to acquire capabilities from external support sources. An implication for GCMMF would be to have formal tie-ups with knowledge organisations for capability building (recently, it has launched a programme for its entry level officers, through a customised programme at IRMA). A similar effort is required from Infosys, even though it has set up the Infosys Leadership Institute. In the case of BEL, its capability building has been guided by the government and needs to explore tie-ups with leading management institutions for developing marketing capabilities of its officers, in view of its plans to penetrate and expand the civilian market for its products.

5.3 Implications for the Society

The examination of the various organisations using the capabilities framework as above helps in understanding the organisation differently, as organisations have been studied in the past from the traditional product perspective. This study based on the capabilities framework, enables the society and the organisation's stakeholders to ensure that resources are deployed to strengthen those capabilities that can be leveraged for gaining competitive advantage in the market or those which can emerge as entry barriers to rivals. It also helps the apex bodies such as NDDB (in the case of KMF) and the controlling Ministry (in the case of BEL) to customise policies and allocate resources to develop or acquire capabilities that enable the organisations to have an advantage in the market. In the case of GCMMF and Infosys that have multiple capabilities, the study would help in identifying sources of capabilities that they do not possess and acquire the same either through collaboration or acquisition of firms that possess the same. As has been discussed earlier, an ownership form that provides more autonomy to the enterprise in strategy formulation enables the enterprise to build competence and capability that can be leveraged for competitive advantage.

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